



Office of Audit Services
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June 16, 2006

AGENDA ITEM 6

TO: MEMBERS OF THE FINANCE COMMITTEE

I. SUBJECT: Biennial Audit Plan

II. PROGRAM: Audit Services

III. RECOMMENDATION: Staff requests that the Finance Committee approve and recommend to the Board of Administration adoption of the Biennial Audit Plan for fiscal years 2006-07 and 2007-08 as proposed in Attachment A.

IV. ANALYSIS:

Each year, as prescribed by the Finance Committee Charter, the Office of Audit Services presents to the Finance Committee a proposed biennial audit plan for the Committee's review and recommendation to the Board of Administration. A proposed Biennial Audit Plan for Fiscal Years 2006-07 and 2007-08 is appended to this agenda item as Attachment A for the Committee's consideration.

The objective of the audit planning process is to optimize the effective application of audit resources to address critical risk coverage, while addressing all other mandates. Within this guiding objective, the audit plan is designed to include a balance of risk-related reviews, financial controls testing, operational effectiveness engagements, and mandated or recurring audits. The audit plan is thus the result of significant information gathering and in-depth analysis as described below.

Development of Proposed Audit Plan

As described in Agenda Item 5, to develop the proposed audit plan, we identify auditable areas both internal and external to the organization, and conduct detailed risk assessments. We also analyze and consider many additional factors in developing the audit plan, such as management or Board priorities, necessary timing of audit activities to coincide with the timing of the auditable activity (for example, Enterprise Management of Billing, Accounts, Receivables, and Collections (EMBARC)), the logical sequencing of some audits (one area in one year, and a related area the following year), maturity of an area (may be more meaningful to wait another year), maintaining a reasonable impact on business areas, and available audit resources.

We identify all mandatory and recurring audit activities, and the resources required for these, which total approximately two-thirds of our available hours per year. While this is a significant share of available resources, the mandatory and recurring activities are in areas of higher assessed risk, and are therefore given priority in each planning cycle. Recurring audit areas include the public contracting agency program (one-third of our audit resources), all major health services contracts, and the master custodian, among others. We also coordinate and monitor external audits of real estate holdings and partnerships.

In addition, we allocate resources to audits mandated by the State Administrative Manual, including the Financial Integrity and State Manager's Accountability (FISMA) audit, and specified information technology audits.

We then identify remaining available audit resources to apply to other high-risk areas identified in the risk assessment, as well as requested audits or consulting projects. Finally, we reserve a block of hours each year to allow us to rapidly respond to requests for ad hoc special projects from the Board of Administration or management.

Proposed Audit Plan Presented for Approval

Based on all of the above factors, the Office of Audit Services develops the proposed annual audit plan based on budgeted staff resources and now presents the proposed plan to the Finance Committee.

To the extent that the Office of Audit Services experiences staff vacancies or that requests for special projects exceed resources in the plan, we will make adjustments to planned work to assure that the highest priority work is

accomplished, and communicate to the Finance Committee on any such changes needed.

This plan supports accomplishment of CalPERS' mission, the strategic plan, and key projects. Under the plan, the office will provide independent assurance and consulting services over CalPERS business units, as well as audits of CalPERS' health plans, public agencies, school districts, external investment managers, and real estate investments.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic Plan, but is part of the audit planning process prescribed by the Finance Committee Charter and the Office of Audit Services Charter.

VI. RESULTS/COSTS:

The planned work of the Office of Audit Services will provide broad oversight for the Board of Administration, its Committees, and CalPERS management.

Staff is available to answer any questions that Committee members may have.

Original Signed by Larry Jensen

Larry Jensen, Chief
Office of Audit Services

Original Signed by Peter Mixon

Peter H. Mixon
General Counsel

Attachment

ATTACHMENT A

AGENDA ITEM 6